



ARIZONA STATE SENATE
Fifty-Third Legislature, First Regular Session

AMENDED
FACT SHEET FOR S.B. 1337

industrial hemp; licensing

Purpose

Authorizes *industrial hemp* production, processing, manufacturing, distribution and commerce conducted by licensed *growers* and *processors*.

Background

Established in 1990, the Department of Agriculture (Department) promotes: a) farming, ranching and agribusiness; b) commerce, consumers and natural resources; and c) the well-being of people, plants, animals and the environment. According to the Department, Arizona's agriculture industry supports 77,000 jobs and generates \$17 billion in economic activity (*Department of Agriculture FY 2016 Annual Report*). Pursuant to [A.R.S. § 3-107](#), the Director of the Department (Director) ensures agency coordination and cooperation to achieve a unified policy of administering and executing all responsibilities.

The Agricultural Act of 2014, or the 2014 Farm Bill, allows universities and state departments of agriculture to begin cultivating industrial hemp for limited purposes. The law allows universities and state departments of agriculture to grow or cultivate industrial hemp if:

- a) the industrial hemp is grown or cultivated for purposes of research conducted under an agricultural pilot program or other agricultural or academic research; and
- b) the growing or cultivating of industrial hemp is allowed under the laws of the state in which such institution of higher education or state department of agriculture is located and such research occurs.

The U.S. Department of Agriculture, in consultation with the U.S. Drug Enforcement Agency and the U.S. Food and Drug Administration, released a [Statement of Principles on Industrial Hemp](#) in the Federal Register on August 12, 2016, to inform the public on the applicable activities related to hemp in the 2014 Farm Bill.

According to the National Conference of State Legislatures, at least 30 states have passed legislation related to industrial hemp. Generally, states have taken three approaches: (1) establishing industrial hemp research and/or pilot programs, (2) authorizing studies of the industrial hemp industry, or (3) establishing commercial industrial hemp programs. Twenty states have passed laws allowing research and pilot programs, 16 states have legalized industrial hemp

production for commercial purposes and 7 states have approved the creation of both pilot/research and commercial programs.

There is a fiscal impact to the state General Fund of \$672,000 in FY 2018. This bill may generate additional revenues for the state General Fund from Transaction Privilege Taxes levied on *industrial hemp* transactions.

Provisions

Industrial Hemp Legalization

1. Authorizes industrial hemp production, processing, manufacturing, distribution and commerce.
2. Designates industrial hemp as an agricultural product that is subject to regulation by the Department.
3. Requires the Director to adopt rules for the licensing, production and management of industrial hemp and hemp seed and set fees to recover the cost of licensing, testing and supervising industrial hemp production.
4. Prohibits the Director from restricting a person from growing industrial hemp based on the legal status of industrial hemp under federal law.
5. Declares the Legislature's finding that the development and use of industrial hemp can improve the economy and agricultural vitality of the state and that the production of industrial hemp can be regulated so as not to interfere with strict regulation of controlled substances.

Licensing

6. Establishes an industrial hemp grower and processor license that is administered by the Department and valid for two years.
7. Requires license applicants to submit fingerprints to the Department, held confidentially and used only to determine eligibility, for a state and federal criminal records check.
8. Allows the Department of Public Safety to exchange fingerprint data with the Federal Bureau of Investigation.
9. Requires a grower or processor to apply for a license within 120 days after the general effective date.
10. Stipulates that license application and renewal forms will be on a form prescribed by the Director and accompanied by a fee set by the Director.

Regulation

11. Requires grower or processor licensees to maintain records that are open to inspection by the Director or the Director's designee.
12. Allows the Director or the Director's designee to physically inspect an industrial hemp site to ensure compliance and collect samples for analysis by the State Agricultural Laboratory.
13. Allows the Department to destroy crops and issue a cease and desist order if a sample contains an average tetrahydrocannabinol concentration of more than 0.3% on a dry weight basis.
14. Prohibits transportation of industrial hemp from a site by a person that is not a licensed grower or processor, or a licensed grower's or processor's designee or agent.
15. Requires a person transporting industrial hemp to carry licensing documents proving the industrial hemp was grown and processed by a licensed grower or processor.
16. Requires a licensed grower or processor to notify the Director of any sale or distribution of industrial hemp grown under the license, including the recipient's name and address.
17. Allows the Director to issue cease and desist orders, prohibiting the further sale, processing or transporting of industrial hemp, against a grower or processor that violates statute or rule.
18. Allows a grower or processor to request a hearing before an administrative law judge at the Office of Administrative Hearings.
19. Authorizes the Director, on complaint to a local court of competent jurisdiction, to compel the seizure and destruction of uncompliant industrial hemp.
20. Allows a grower or processor to apply for release of the industrial hemp, or permission to process and relabel the industrial hemp for compliance, before the court order final disposition.
21. Allows the Director to impose a civil penalty of up to \$5,000 for a violation of a licensing requirement, term, condition or rule adopted by the Director.
22. Provides an affirmative defense to a licensed grower or processor, or a designee or agent of a licensed grower or processor, from any prosecution for the cultivation of marijuana, unless the charge is for possession, sale, transportation or distribution of marijuana that does not meet the definition of industrial hemp.
23. Exempts a licensed grower or processor who possesses, uses, sells, produced, manufactures or transports industrial hemp from statute criminalizing the possession, sale, production and transport of marijuana.

Industrial Hemp Trust Fund

24. Establishes the Industrial Hemp Trust Fund (Fund), consisting of legislative appropriations, licensing fees and other sources, for the exclusive purpose of implementing, continuing and supporting industrial hemp licensing.

25. Requires licensing fees to be deposited in the Fund.
26. Designates the Director as trustee of the Fund and prohibits commingling of monies other than for investment purposes by the Treasurer.
27. Allows the Director to accept and spend federal monies and private grants, gifts, contribution and devises to assist in carrying out licensing activity.
28. Establishes the Industrial Hemp Program as the beneficiary of the Fund.
29. Requires leftover monies in the Fund at the end of the fiscal year to carry over to the next year rather than divert to the state General Fund.

Definitions

30. Defines *crop* as any industrial hemp grown under a single industrial hemp grower or processor license.
31. Defines *grower* as an individual, a partnership, a company or a corporation that produces industrial hemp for commercial purposes.
32. Defines *industrial hemp products* as all products made from hemp, including cloth, cordage, fiber, food, fuel, paint, paper, construction materials, plastics and food that can be made only from hemp seed or hemp seed oil.
33. Defines *hemp seed* as any Cannabis Sativa L. seed that produces industrial hemp plants, that meets any labeling, quality and other standards that is intended for sale or is sold to, or purchased by, a licensed grower for planting.
34. Defines *industrial hemp* as the Cannabis Sativa L. plant and all nonseed parts and varieties, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3% on a dry weight basis.
35. Defines *processor* as an individual, a partnership, a company or a corporation that receives industrial hemp for processing into commodities, hemp products or hemp seed.

Other

36. Contains technical and conforming changes.
37. Becomes effective on the general effective date.

Amendments Adopted by Committee

1. Appropriates, from the state General Fund, \$250,000 and three full time employees to the Department for administration of the act and \$422,000 to the Department Laboratory for testing.

2. Narrows the criminal exemption to growers or processors operating in their capacity as a licensee.

Senate Action

COMPS 2/13/17 DPA 6-1-1

Prepared by Senate Research

February 15, 2017

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